

Message Text

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FOR EA ONLY

E.O. 11652: N/A
TAGS: EAID, ID
SUBJECT: PREPARATION FOR IGGI MEETING

REF: STATE 79564

1. EMBASSY AND AID OFFICERS MET WITH BOTTELIER FOR TWO HOURS MARCH 18 JUST BEFORE HIS DEPARTURE FROM INDONESIA. COMPREHENSIVE, SEVEN-PAGE MEMCON ON MEETING HAS BEEN PREPARED AND IS AWAITING NEXT CLASSIFIED POUCH SHIPMENT MARCH 30. FOLLOWING ARE HIGHLIGHTS OF MEMCON:

2. REPORT FOR MAY IGGI - REPORT WILL BE BRIEF, ALONG LINES OF LAST YEAR'S. IT CONTAINS SURVEY RECENT TRENDS, FUTURE OUTLOOK FOR 1978/79 AND PROJECTED FOREIGN EXCHANGE RESOURCE NEEDS TO BE USED FOR BILATERAL PLEDGES AT MAY IGGI. BOTTELIER SAID FOREIGN EXCHANGE RESOURCES ARE ESTIMATED AS FOLLOWS: (IN MILLIONS ON U.S. DOLLARS)

COMMERCIAL BORROWING	\$700
NON-IGGI CONCESSIONAL	100
IGGI - BILATERAL	750
MULTILATERAL	750

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TOTAL \$2,300

3. MAJOR IBRD REPORT ON INDONESIA - BOTTELIER SAID WORK ON THIS REPORT WAS ON SCHEDULE AND SHOULD BE AVAILABLE NOVEMBER/DECEMBER AT WHICH TIME IT MIGHT BE USEFUL TO HAVE A SECOND IGGI MEETING.

4. FINDINGS AND COMMENTS ON RECENT WORK BY IBRD STUDY MISSIONS - BOTTELIER SAID IT IS CLEAR THAT PREVIOUS BANK REPORTS HAVE BEEN OVERLY OPTIMISTIC ON BOTH OIL AND NON-OIL EXPORT PROJECTIONS BUT HE WOULD NOT BE PINNED DOWN AS TO WHAT MIGHT BE MORE REALISTIC FIGURES. HE EXPECTS NET OIL EXPORTS TO DECLINE IN FUTURE AND EVEN GROSS OIL PRODUCTION MAY BE DOWN. NEVERTHELESS, HE SAID BOTH IBRD AND IMF EXPECT SOME FURTHER BUILD-UP IN FOREIGN EXCHANGE RESERVES IN COMING YEAR THOUGH THEY WILL PROBABLY START TO DECLINE IN 1979/80. HE WOULD NOT INDICATE RATE OF DECLINE, HOWEVER. NOTWITHSTANDING IMPROVED FISCAL CONTROLS, BORROWINGS HELD WELL BELOW IGGI RECOMMENDED LIMITS FOR PAST TWO YEARS, AND RESCHEDULING OF MORGAN AND BANK OF TOKYO LOANS, IBRD ESTIMATES GOI DEBT SERVICE RATIO WILL REMAIN JUST UNDER 20 PERCENT OVER NEXT COUPLE OF YEARS. THIS SUPPOSEDLY DUE TO MORE REALISTIC EXPORT PROJECTIONS AND MORE COMPLETE DEBT PICTURE.

5. IBRD VIEWS THIS AS IDEAL TIME FOR GOI TO REFOCUS DEVELOPMENT AND INVESTMENT PRIORITIES AS IT PREPARES REPETA III. EFFORTS SHOULD BE REDIRECTED TOWARD PROJECTS WHICH HAVE MUCH MORE RURAL, SOCIAL AND JOB CREATION ASPECTS. EMPHASIS SHOULD ALSO SHIFT FROM LARGE, GOVERNMENT CONTROLLED ACTIVITIES TO SMALLER SCALE, PRIVATE SECTOR INDUSTRIAL AND AGRICULTURAL LIMITED OFFICIAL USE

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DEVELOPMENT. BOTTELIER NOTED GAP BETWEEN FUNCTION BAPPENAS NOW PERFORMS AS VERY SHORT-TERM STUDIES OF MINISTER SUMITRO'S GROUP. GOI NEEDS INTERMEDIATE PLANNING CAPABILITY, A REQUIREMENT NOW BEING BRIDGED BY WORK OF HARVARD ADVISORY GROUP, ILO, UN AND IBRD EXPERTS.

6. FOOD PRODUCTION SHOULD BE GOI'S FIRST PRIORITY. POTENTIAL OF OUTER ISLANDS NEEDS TO BE DEVELOPED ALTHOUGH MORE ALSO CAN BE DONE TO INCREASE PRODUCTION ON JAVA. IBRD ESTIMATES THERE IS POTENTIAL TO DOUBLE PRODUCTION ON AS MUCH AS ONE MILLION HECTARES ON JAVA BY EXPANDING ALREADY OPERATING IRRIGATION SYSTEMS. AGRICULTURE SITUATION IS VERY COMPLEX AND IBRD IS UNEASY ABOUT MANY INFORMATIONAL VOIDS ABOUT WHAT IS ACTUALLY GOING ON. FOR EXAMPLE, THERE IS ACCUMULATING EVIDENCE THAT, WITHOUT ANY OFFICIAL ENCOURAGEMENT, PRODUCTION OF SORGHUM AND MILLET IS INCREASING SIGNIFICANTLY. NO ONE SEEMS TO KNOW WHY THIS SHIFT IS OCCURRING. BOTTELIER SAID PRELIMINARY INFORMATION WOULD INDICATE THAT INDONESIA MAY HAVE A BUMPER RICE CROP THIS YEAR.

7. BOTTELIER SAID HIS OWN RANKING OF PRIORITIES FOR

IGGI AGENDA WOULD BE:

- A. FORMULATION OF COMPREHENSIVE FOOD POLICY;
- B. FORMULATION OF EMPLOYMENT POLICY;
- C. ADOPTION OF A POLICY WHICH FAVORS SMALL, PRIVATE ENTREPRENEURS AND A REVISED ROLE FOR BANKING SECTOR TO ACCOMMODATE THIS EMPHASIS;
- D. REVIEW OF POPULATION/FAMILY PLANNING PROGRAM.

8. WE WOULD SUGGEST THAT YOU QUESTION BOTTELIER ABOUT DEBT SERVICE RATIO OF UNDER 15 PERCENT NEXT YEAR. IF IT WILL BE CLOSER TO 20 PERCENT, IBRD MUST BE USING SOME COMBINATION OF LOWER EXPORTS AND HIGHER DEBT SERVICE REQUIREMENTS. BOTTELIER HAS SOME INTERESTING OBSERVATIONS. LIMITED OFFICIAL USE

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ATIONS ABOUT CHANGES IN RELATIVE WELL-BEING OF LOWER INCOME GROUPS OVER THE PERIOD 1970-76. SOME OF THEM ARE COVERED IN MEMCON, BUT YOU MAY WANT TO GET FIRST-HAND IMPRESSIONS OF HIS VIEWS. WHEN HE SPOKE WITH US HE WAS FAIRLY FRANK BUT CLEARLY UNEASY ABOUT GOING BEYOND WHAT RESIDENT IBRD REP MIGHT BE WILLING TO SHARE WITH US. HE MAY BE LESS SENSITIVE ABOUT THIS IN WASHINGTON. WE WOULD SUGGEST THEREFORE THAT YOU TRY TO GET BOTTELIER TO BE MORE SPECIFIC CONCERNING BANK'S OIL AND NON-OIL EXPORT PROJECTIONS AND ESTIMATES ON PRIVATE CAPITAL FLOWS OVER NEXT COUPLE OF YEARS AS WELL AS RATES OF FOREIGN RESERVES BUILD-UP AND DECLINE. HE MAY ALSO BE MORE FORTHCOMING CONCERNING NEED FOR COORDINATION AMONG DONORS AND HOW THIS MAY BE ACCOMPLISHED.

9. WOULD APPRECIATE IT IF YOU WOULD SHARE RESULTS OF MEETING WITH BOTTELIER WITH US. MAY ALSO BE USEFUL TO COMPARE YOUR MEETING WITH HIM WITH OUR MEMCON WHEN LATTER IS DISTRIBUTED IN DEPARTMENT EARLY NEXT WEEK. MASTERS

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